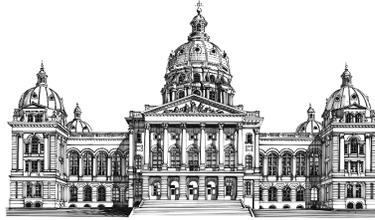


# Iowa Legislative Services Agency Fiscal Services

**REVISED**

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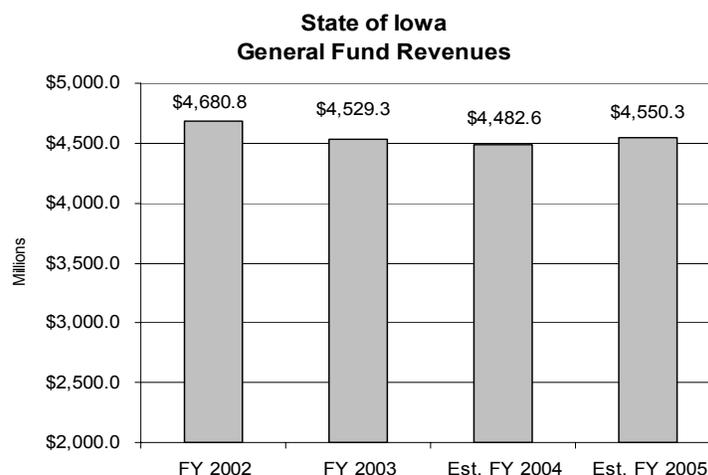
## State of Iowa General Fund Budget Changes

### ISSUE

This *Issue Review* examines actions taken by the General Assembly and the Governor to address decreased revenues to the State's General Fund from FY 2002 through FY 2004. In addition, information regarding FY 2005 budget issues to be addressed by the General Assembly is provided.

### GENERAL FUND REVENUE CHANGES

Iowa's General Fund revenues experienced record declines in FY 2002 resulting from a weakened national economy and exacerbated by the events of September 11, 2001. Since FY 2002, the State's General Fund tax revenues have continued to decline. The projected FY 2004 revenues are projected to be 4.2% below the FY 2002 level. The Revenue Estimating Conference (REC) is projecting revenue for FY 2005 to increase by 1.5% over the FY 2004 level; however, this is still 2.8% below the FY 2002 level. The following chart provides the current trend for General Fund revenues.



To address the growing inequities between revenues and expenditures, the General Assembly and the Governor have enacted legislation that has included a variety of revenue transfers from non-General Fund sources to the General Fund, shifting expenditures

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traditionally funded from the General Fund to non-General Fund sources, as well as numerous reductions to State agencies and programs.

### **GENERAL FUND APPROPRIATION CHANGES**

**Table 1** shows the changes that have occurred with General Fund appropriations for FY 2002 through FY 2004. In FY 2002, State agencies and programs were appropriated a total \$4.886 billion from the General Fund. By the close of FY 2002, appropriations had been reduced by a total of \$295.2 million (6.0%) to \$4.591 billion, largely through the enactment of across-the-board reductions, required furloughs, and deappropriations.

In FY 2003, a total of \$4.501 billion was appropriated to State agencies and programs, which represented a 2.0% decrease (\$90.1 million) compared to the final FY 2002 appropriation level of \$4.591 billion. State agencies' General Fund operating budgets were further reduced by \$33.1 million through mandatory furloughs enacted during the Second Extraordinary Session of 2002. During the 2003 Legislative Session, supplemental appropriations for FY 2003 were enacted that totaled \$61.5 million, the majority of which were to supplement the Medical Assistance (Medicaid) Program. The final FY 2003 appropriation budget, after reversions and adjustments to standing appropriations, was \$4.529 billion. This represented an increase of 0.6% compared to the original FY 2003 appropriation, and a 1.3% decrease compared to the final FY 2002 appropriation level.

For FY 2004, \$4.562 billion was appropriated to State agencies and programs, which represents a 0.7% decrease (\$33.1 million) compared to the final FY 2003 appropriation level of \$4.529 billion. The \$33.1 million reduction included a \$15.0 million decrease to certain State agencies designated as Charter Agencies. However, \$10.6 million was returned to the Charter Agency budgets in return for increased revenue that the agencies agreed to generate for the General Fund. On October 10, 2003, the Governor ordered a 2.5% across-the-board reduction due to the revised revenue projection made at the October meeting of the REC. The 2.5% across-the-board reduction reduced appropriations by a total of \$83.2 million. The final FY 2004 appropriation budget, after reversions and adjustments to standing appropriations, is estimated at \$4.479 billion, which is 1.8% below the original appropriation for FY 2004, and 1.1% below the final FY 2003 appropriation level.

**Table 1**  
**General Fund Appropriations**

(Dollars in Millions)

	Actual FY 2002	Actual FY 2003	Estimated FY 2004
Original Appropriation	\$ 4,886.1	\$ 4,500.7	\$ 4,562.4
4.3% Reduction	-202.9	0.0	0.0
1.0% Reduction	-12.7	0.0	0.0
2.5% Reduction	0.0	0.0	-83.2
Charter Agency Adj.	0.0	0.0	10.6
Furloughs	-11.7	-33.1	0.0
Supplementals	27.2	61.5	0.0
Deappropriations	-69.1	0.0	0.0
Changes to Standings	-9.3	5.2	1.3
Total After Adjustments	<u>\$ 4,607.6</u>	<u>\$ 4,534.4</u>	<u>\$ 4,491.1</u>
Reversions	-16.7	-5.0	-12.5
Final Appropriation	<u>\$ 4,590.9</u>	<u>\$ 4,529.3</u>	<u>\$ 4,478.6</u>

### FISCAL YEAR 2002 – 2004 REVENUE AND EXPENDITURE TRANSFERS

**Tables 2 and 3** show appropriations that have traditionally been funded from the General Fund that were shifted to non-General Fund sources from FY 2002 through FY 2004. **Table 2** shows the funding sources that were impacted by the transfers, while **Table 3** shows the appropriations that were shifted to non-General Fund sources by program.

The Senior Living Trust Fund has been the most heavily used for shifting General Fund appropriations. In FY 2004, 54.3% of the shifted appropriations were shifted to the Senior Living Trust Fund. The second most used funding source was the Healthy Iowans Tobacco Trust Fund. In FY 2004, 19.9% of the appropriations were shifted to this Fund.

The program that made up the majority of the shifted appropriations was the Medical Assistance (Medicaid) Program. In FY 2004, 79.5% of the shifted appropriations were for the Program. Other significant appropriation shifts over the last three fiscal years have included School Aid, State employee salary increases, and the Student Achievement/Teacher Quality Act Program.

General Fund–related expenses have been transferred to many funds that were established to receive one-time or time-limited sources of revenue. The significant funds that fall within this category include: the Senior Living Trust Fund, the Restricted Capital Fund, the Healthy Iowans Tobacco Trust Fund, and the Endowment for Iowa's Health Account. The Senior Living Trust Fund is projected to be depleted in FY 2006 assuming appropriations for FY 2005 are made at the same level as FY 2004. While the Healthy Iowans Tobacco Trust Fund and the Endowment for Iowa's Health Account are projected to last somewhat longer than the Senior Living Trust Fund, the proceeds in these funds will eventually be spent in their entirety based on current funding levels.

**Table 2**  
**General Fund Expenditures**  
**Shifted to Other Funding Sources**  
(Dollars in Millions)

<u>Funding Sources</u>	FY 2002	FY 2003	Est. FY 2004
Senior Living Trust Fund	\$ 79.3	\$ 82.8	\$ 140.6
Healthy Iowans Tobacco Trust	44.2	52.8	51.4
Endowment for Healthy Iowans	42.5	36.8	0.0
Economic Emergency Fund	44.9	25.0	0.0
Restricted Capital Fund	7.3	28.9	29.0
Hospital Trust Fund	7.0	19.0	29.0
Underground Storage Tank Fund	18.0	20.0	0.0
Regents Demutualization	0.0	30.0	0.0
Environment First Fund	10.1	3.5	7.5
Insurance Premium Tax	0.0	10.0	0.0
Rebuild Iowa Infrastructure Fund	0.0	5.9	1.3
Terminal Liability Fund	3.5	0.0	0.0
Physical Infrastructure Assist. Fund	2.5	0.0	0.0
Strategic Investment Fund	2.0	0.0	0.0
Cash Reserve Fund	0.0	1.8	0.0
Alternative Drainage Assist. Fund	1.1	0.0	0.0
DNR - Snowmobile Fund	1.0	0.0	0.0
Victims Compensation Fund	1.0	0.0	0.0
All Terrain Vehicle Fund	0.8	0.0	0.0
Value Added Agriculture Fund	0.3	0.0	0.0
Aviation Assistance Fund	0.3	0.0	0.0
<b>Total</b>	<u>\$ 265.8</u>	<u>\$ 316.5</u>	<u>\$ 258.8</u>

**Table 3**  
**General Fund Expenditures**  
**Shifted to Other Funding Sources**

(Dollars in Millions)

Program	FY 2002	FY 2003	Est. FY 2004
Medical Assistance (Medicaid)	\$ 120.5	\$ 133.6	\$ 196.5
ICN and Prison Debt Service	6.7	18.4	18.4
Substance Abuse	11.8	10.0	11.8
Tuition Replacement	0.6	27.3	10.6
Elderly Services	5.3	6.6	7.5
Soil Conservation Cost Share	7.5	3.5	5.5
DHS Programs	4.4	4.4	4.4
DNR Park Operations	0.0	0.0	2.0
Assisted Living/Adult Day Care	0.0	0.0	0.8
DPS - Capitol Security	0.0	0.9	0.8
DOT - Aviation Programs	0.0	0.0	0.5
School Aid	44.9	45.0	0.0
Student Achievement	40.0	23.9	0.0
State Employee Salaries	18.0	41.1	0.0
Indigent Defense	2.7	0.0	0.0
Military Pay Differential	0.0	1.8	0.0
Appeal Board	1.5	0.0	0.0
Unemployment Compensation	1.0	0.0	0.0
Elderly Tax Credit	0.5	0.0	0.0
Performance of Duty	0.4	0.0	0.0
Total	<u>\$ 265.8</u>	<u>\$ 316.5</u>	<u>\$ 258.8</u>

Another component associated with balancing the General Fund budget over the last three fiscal years has been the transfer of revenue from non-General Fund sources to the General Fund. **Table 4** lists the revenue transfers by funding source. Revenues transferred to the General Fund from other sources, has significantly declined since FY 2002. In FY 2002, a total of \$282.2 million was transferred compared to an estimated \$87.9 million that will be transferred in FY 2004.

In FY 2003, \$97.8 million in revenue was transferred from non-General Fund sources to the General Fund. Legislation is pending regarding the transfer of an additional \$45.8 million from the Cash Reserve Fund during FY 2004 to address a FY 2003 budget deficit that occurred after the close of the fiscal year due to accrued revenue adjustments. This will bring the total amount of revenue transferred to the General Fund to \$142.9 million in FY 2004.

The primary sources of revenue transferred to the General Fund over the last three fiscal years have come from the Cash Reserve and Economic Emergency Funds. In FY 2002, these two sources provided \$195.0 million in revenue to the General Fund. Other significant revenue transfers have come from the Endowment for Iowa's Health Account, the Rebuild Iowa Infrastructure Fund (RIIF), demutualization of unclaimed property, and the School Infrastructure Fund.

**Table 4**  
**Revenue Transfers to the General Fund**  
(Dollars in Millions)

<u>Funding Source</u>	Est.		
	FY 2002	FY 2003	FY 2004
Cash Reserve Fund	\$ 90.0	\$ 45.8	\$ 0.0
Economic Emergency Fund	105.0	0.0	0.0
Endowment for Healthy Iowans	22.0	9.0	20.0
Rebuild Iowa Infrastructure Fund	9.8	15.5	10.0
Reserve Fund Interest	15.6	5.2	7.6
Demutualization Unclaimed Property	0.0	0.0	26.7
Environment First Fund	7.5	18.4	0.0
Prison Infrastructure Fund	6.2	7.6	9.0
School Infrastructure Fund	0.0	22.0	0.0
Underground Storage Tank Fund	0.0	10.0	0.0
AEA Balance Transfer	0.0	0.0	10.0
Healthy Iowans Tobacco Trust	6.0	0.0	0.0
Recreation Trails Fund	5.5	0.0	0.0
Ground Water Protection Fund	4.2	1.0	0.0
Waste Tire Fund	3.0	1.6	0.0
Abandoned Property (Unclaimed Securities)	0.0	0.0	3.7
Title Guarantee Fund	0.0	2.7	0.0
Vehicle Depreciation Fund	2.2	0.0	0.0
Vehicle Depreciation Fund	0.0	2.2	0.0
Other Fund Transfers	1.7	0.9	0.9
Risk Pool	1.5	0.0	0.0
Brucellosis & Tuberculosis Fund	1.0	0.0	0.0
DED - Strategic Investment Fund	1.0	0.0	0.0
Jury and Witness Fund	0.0	1.0	0.0
Total	<u>\$ 282.2</u>	<u>\$ 142.9</u>	<u>\$ 87.9</u>

Bar charts comparing revenues and expenditures for each of the last three fiscal years are included in **Attachments A – C**.

### **PROJECTED FY 2005 BUDGET**

The Fiscal Services Division of the Legislative Services Agency (LSA) is currently projecting that a \$252.3 million budget adjustment will be necessary to balance the General Fund budget in FY 2005. **Table 5** shows a projected FY 2005 balance sheet for the General Fund that is based on the following assumptions:

- Projected revenue estimate of \$4.550 billion as set by the REC on December 8, 2003.
- State agencies and programs will be funded at the FY 2004 level of \$4.479 billion.
- Built-in and anticipated expenditure increases are estimated to total \$278.5 million. These are discussed in greater detail in **Attachment D**.
- Spending will be decreased or revenues increased to offset a projected shortfall of \$252.3 million to allow for an ending balance of at least \$45.5 million. This will comply with the

expenditure limitation, which is 1.0% of the estimated net General Fund receipts. The expenditure limitation is calculated prior to adjustments for reversions.

- Agencies will revert \$12.5 million from appropriated funds at the end of FY 2005.

**Table 5**  
**General Fund Balance Sheet**

(Dollars in Millions)

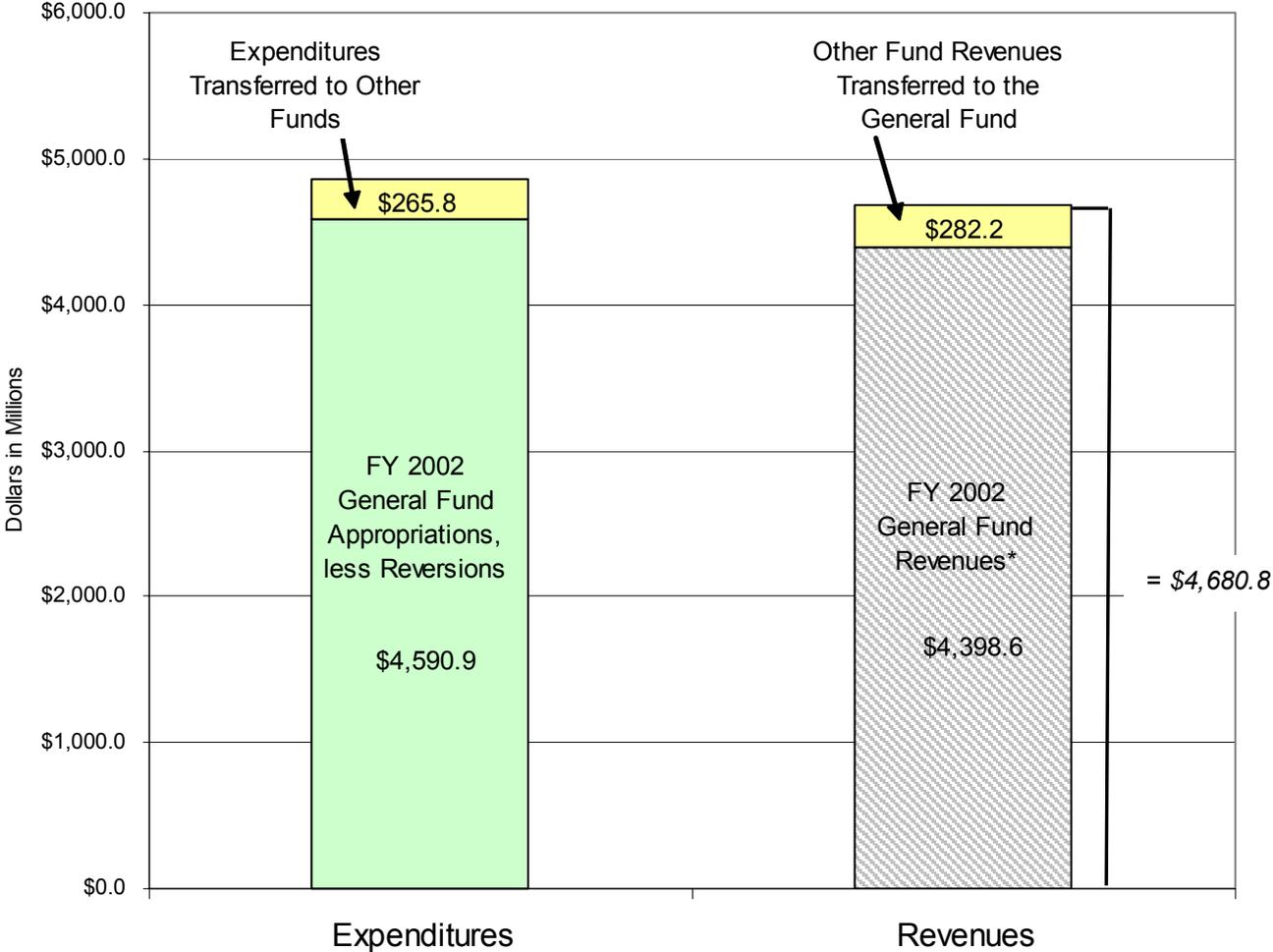
	Estimated FY 2005
Estimated Receipts	\$ 5,189.9
Tax Refunds	-712.2
Accruals	5.4
Transfers	67.2
Total Available Revenue	<u>\$ 4,550.3</u>
Appropriations	\$ 4,478.6
Built-in Expenditures	278.5
Adjustment to Maintain 1.0%	
Ending Balance	-252.3
Total Appropriations	<u>4,504.8</u>
Reversions	-12.5
Total Net Appropriations	<u>\$ 4,492.3</u>
Ending Balance	<u>\$ 58.0</u>

In order to balance the FY 2005 budget, adjustments to revenues or expenditures will be necessary. This may include increasing revenues (i.e., taxes and fees), reducing built-in and anticipated expenditure increases, or reducing appropriations for State agency operations and programs. The General Assembly can also continue the practice of transferring revenue and expenditures from non-General Fund sources. Additional information regarding non-General Fund sources of revenue is available upon request from the Fiscal Services Division of the LSA.

STAFF CONTACT: David Reynolds (Ext. 16934)

**FY 2002  
General Fund Revenues and Expenditures**

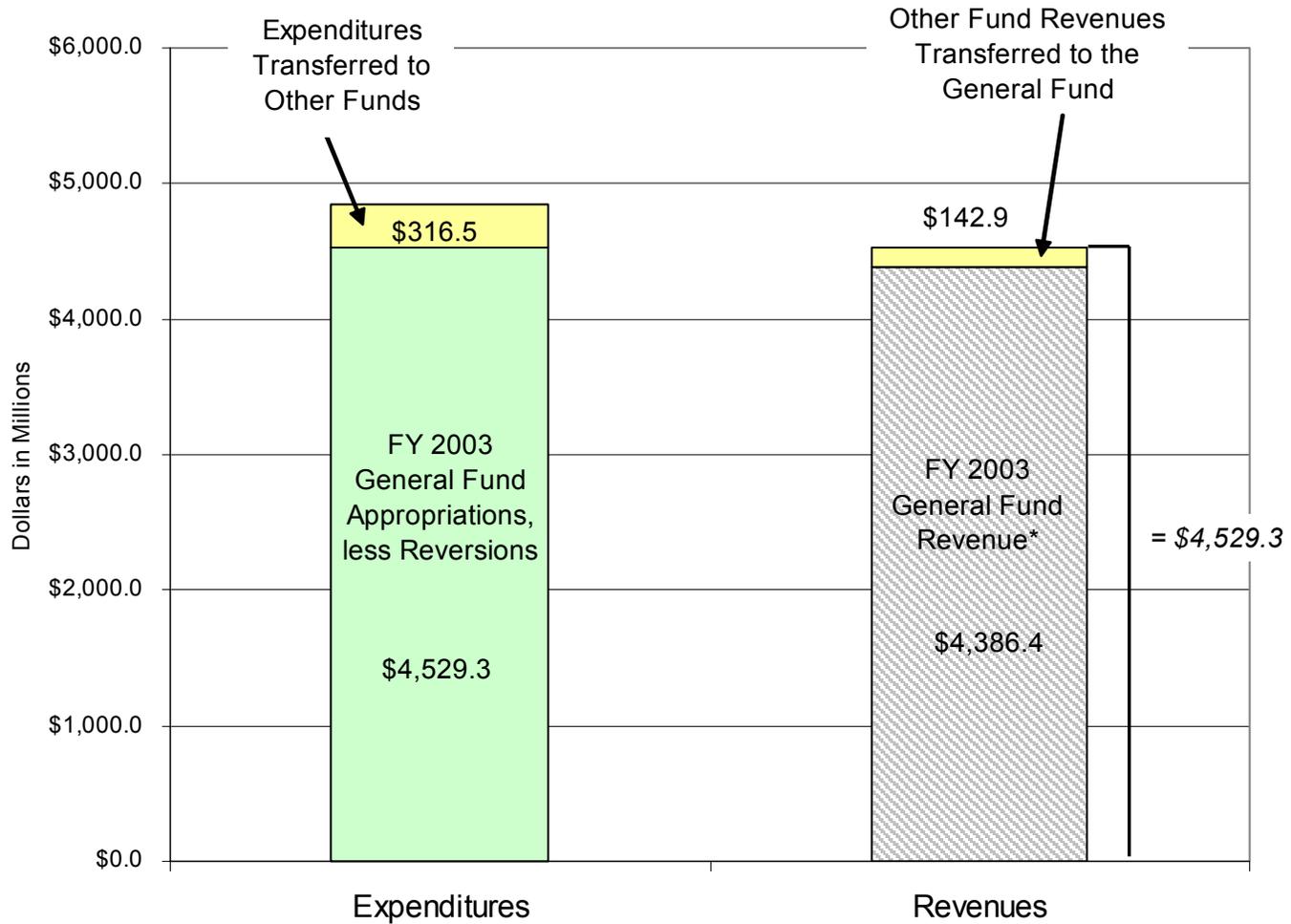
(Dollars in Millions)



\* Revenues after refunds, transfers, and accruals.

# FY 2003 General Fund Revenues and Expenditures

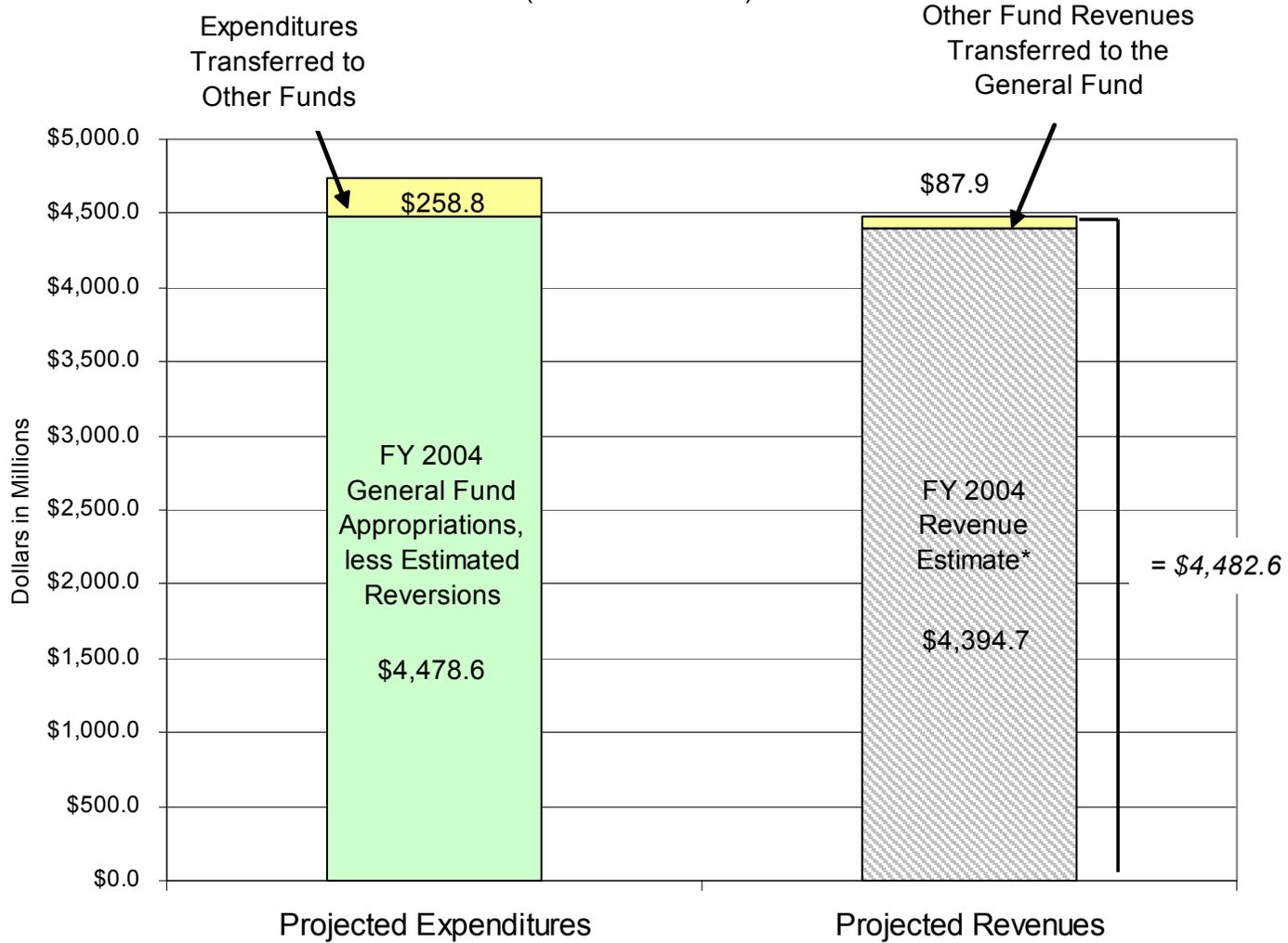
(Dollars in Millions)



\* Revenues after refunds, transfers, and accruals.

# FY 2004 Projected General Fund Revenues and Expenditures

(Dollars in Millions)



\* Revenues after refunds, transfers, and accruals.

**FY 2005 Built-in and Anticipated Expenditures**

A built-in increase or decrease is a standing appropriation required by the Code of Iowa, an entitlement program, or an enacted appropriation for a future fiscal year that increases or decreases compared to the prior year. Built-in increases or decreases may be changed by enacted legislation. An anticipated increase or decrease is based on prior obligation or action and requires legislative action in order to be funded.

For FY 2005, the Fiscal Services Division of the LSA is projecting an increase in built-in and anticipated expenditures of \$278.5 million. The three most significant increases include: School Aid at \$115.9 million, Medical Assistance (Medicaid) at \$75.0 million, and State employee salary increases at \$69.4 million. Collectively, these three budget expenditures comprise 93.5% of the total projected built-in and anticipated expenditure increases for FY 2005. The following table summarizes the projected built-in and anticipated changes for FY 2005.

It should be noted that the estimate for Medical Assistance (Medicaid) already assumes that \$132.3 million from the Senior Living Trust Fund, \$35.3 million from the Healthy Iowans Tobacco Trust Fund, and \$29.0 million from the Hospital Trust Fund will continue to be used to fund the Program for FY 2005. The \$75.0 million built-in increase is an increase to the General Fund appropriation.

**Projected FY 2005 Built-in General Fund Expenditures**

(Dollars in Millions)

**Statutory Built-in Expenditures**

K-12 School Foundation Aid (FY 2005 Allowable Growth)	\$	115.9
Human Services - Medical Assistance		75.0
Appropriation to Endowment for Healthy Iowans		29.8
Homestead Tax Credit		17.5
Public Transit Assistance		-8.3
Franchise Reimbursement Tax		-8.6
Machinery & Equipment Property Tax Replacement Fund		-11.0
Education - Early Intervention Block Grant		-29.3
Other		24.3
<b>Total Built-in Increases and Decreases</b>	<b>\$</b>	<b>205.3</b>

**Anticipated Expenditure Increases and Decreases**

FY 2005 Collective Bargaining Salary Package	\$	69.4
Other		3.8
<b>Total Anticipated Increases and Decreases</b>	<b>\$</b>	<b>73.2</b>
<b>Total Projected Expenditures</b>	<b>\$</b>	<b>278.5</b>